



Small Talk

A Comprehensive Guide to SBA Loans for Small Businesses

SBA'S FAVORABLE TERMS HELP YOUR BUSINESS GET STARTED, SPUR GROWTH AND MEET YOUR GOALS

For entrepreneurs at heart, starting and running a small business can be an incredibly fulfilling and rewarding experience. But success rarely comes easy, and it usually requires some form of financial support. For many business owners, a Small Business Administration (SBA) loan is the perfect solution to help them get established and plant seeds for future growth.

In 2023 alone, the SBA backed more than 63,000 loans amounting to roughly \$34 billion to small businesses, helping entrepreneurs all over the country achieve their vision of success.¹ Whether you're just getting your venture off the ground or reaching for the next level, here's what you need to know about SBA loans, and how an SBA Preferred Lender like Frost can help.



WHO IS ELIGIBLE FOR SBA LOANS?

To get an SBA loan, your business must be a for-profit operation (charitable organizations do not qualify) located in the United States and meet the SBA's definition of a small business. There is no simple rule as to how big a company can be to qualify, but as a rule of thumb, the SBA says that "most manufacturing companies with 500 employees or fewer and most non-manufacturing businesses with average annual receipts under \$7.5 million, will qualify as a small business." You can see full details on the SBA website.

Proving you're an eligible small business is only the first step. The SBA, along with the lenders who offer SBA loans, will also need to determine your creditworthiness before granting approval. This process usually involves reviewing your tax returns, financial statements and business projections for the years ahead.

HOW DO SBA LOANS DIFFER FROM OTHER BUSINESS LOANS?

Unlike conventional loans, SBA loans are partially backed by the government, meaning lenders will be reimbursed for at least some of their losses if the borrower defaults on the loan. Because of the lower risk, banks can offer more favorable terms on SBA loans, such as lower interest rates,

lower down payment requirements and, in some cases, no collateral required. Those less restrictive terms can make a big difference for business owners who are just getting started and have limited resources.

HOW CAN YOU USE AN SBA LOAN?

SBA loans can provide funding for a wide variety of purchases: to buy equipment or vehicles, stock up on product inventory, launch a marketing campaign, boost working capital, buy or renovate a commercial property, and much more. There are some stipulations about how SBA loans cannot be used, such as paying off personal debts or buying investment properties.

ARE THERE DIFFERENT TYPES OF SBA LOANS?

Yes, so it's important to do some research, and, with the help of your banker, decide which type of SBA loan is the best fit for your business needs. Frost offers three SBA products:

- SBA 7(a) loans can be used for many purposes, and they are particularly well-suited for purchasing an existing business or financing working capital to make business improvements. Businesses can borrow up to \$5 million with the option of a variable interest rate, and collateral may be required.



- The SBA 504 loan is typically used to finance fixed assets such as real estate or expensive machinery. These loans allow you to borrow up to \$5 million with a fixed interest rate, and no collateral is required other than the property acquired.
- The SBA Express program is a smaller term loan or a revolving line of credit of up to \$500,000, which can be helpful for businesses that need a safe source of fast funding at competitive rates.

Keep in mind that the exact terms of each loan product may vary depending on the amount borrowed, how you'll use the funds, and your business history.

WHERE SHOULD YOU GET AN SBA LOAN?

Not all banks are approved to offer SBA loans, and among those that are, only some are "SBA Preferred Lenders." Preferred lenders like Frost have earned the SBA's trust through a history of financial stability and reliable operations. The distinction allows them to make loan decisions on-site and secure funds faster for small business customers.

When your business is ready to take the next step, call the small business team at Frost for help with choosing the most suitable SBA financing option and navigating the application process.

FINANCING THE FUTURE

As an SBA Preferred Lender, Frost has helped hundreds of small business owners achieve their dreams with SBA loans. Here are three recent examples of real-life customers:

- One entrepreneur used an SBA 7(a) loan to buy an existing childcare franchise and improve its facilities.
- Another used his SBA Express funds to purchase more inventory for his rapidly growing business, to avoid having his customers wait for extended periods due to low inventory.
- A coffee shop owner leveraged multiple SBA loans, including an SBA 504 loan to grow from one location to three, with plans to open three more in the near future.

How will you use your SBA funding?